CHAIN STORE AGE
MERCHANDISER

Retailers crave sweeter candy margins

By Faye Brookman

To offset generally soft seasonal candy sales, drug stores are pulling from everyday stock to support holidays. Retailers are also seeking ways to make candy appeal to customers year-round.

This push to reduce seasonal buying and motivate sales throughout the year comes on the heels of a frightful Halloween marred by the fear of tampered candy. At Christmas, candy sales picked up, but slacked off again at Valentine's Day.

"We're using more of our everyday stock for seasonal promotions," confirmed Ed Hegedus, buyer for Hook Drugs, Indianapolis. Hegedus reported that there has been a trend away from promotional candy and Hook has concentrated on building its traditional lines.

This year, chains are considering making further cuts, especially for Halloween. Pat Teeley, buyer for Perry Drug, is one looking to develop the proper buying levels for 1983. Halloween 1982 was tough for the chain, especially in the Illinois stores.

"We cut back 15% to 20% for Halloween and still had to carry over 10%," she said. Teeley doesn't stock the promotional type items year-round (bagged candy bars and other adult items) and has to buy specifically for seasons.

Another chain reducing its candy order for holiday events is Walgreens. The Deerfield, Ill.-based operations saw its bagged candy sales (usually the best Halloween performer) drop 20% last year.

While seasonal sales are poor, overall candy consumption is also declining. Industry sales, pushed by price increases, rose 10% last year to $5.18 billion, but average consumption was 16 lb., down from 20 lb. recorded 12 years ago.

Chain drug stores account for about $1 billion of the total sales. However, because of painful markdowns they are being forced to take to clear away merchandise, retailers feel they must turn candy into a year-round category.

This is being done by increasing promotions of candy. Many chains, such as Hook and Pay 'n Save, advertise candy in every flyer. Among the popular promotions are five bars for $1 and a few chains feature candy of the month promotions. Candy is also being used on endcaps to entice buyers.

Kinney Drug hopes to lift sales by offering only the name brands of the fast turning candies. Buyer Jerry Houghton feels that today's shopper demands the quality assured her in the popular brands.

Several retailers are counting on a resurgence in higher ticket box candy. Kirk Van Auken, buyer for Gray Drug Fair, reports that box sales are recovering. "People give box candy as gifts more often," he explained.

Teeley added that the key to pumping sales in candy is to offer value. "Consumption is off," he pointed out, "vendors must make the candy look like a good value." One way to do this is to increase the size of the bar without raising the price. She added that this is possible now because the prices of sugar and cocoa have stabilized.

Van Auken agreed prices have moderated in candy, a category where costs were soaring in past years. Thus, retailers have been able to hold prices and reap better margins because of lower manufacturer's costs. Margins are hovering around 25% to 30%.

Another buyer pointed out, however, that one manufacturer chose to boost prices this year. Competing brands did not and stores now have "two tier" pricing.

"Now customers come in and see similar items priced differently," the buyer explained. "I don't know what the end result will be but we are watching it carefully."

While candy consumption has declined in the last decade, chain drug retailers have been maintaining their business by stressing year-round candy promotions and by pushing more higher-ticket boxed goods.

Chains seeking higher tobacco dept. turnover

By Mike Dunn

Drug chains are reducing the size of their cigarette orders, looking for faster turns and introducing generic products in an effort to coax a higher return on investment from tobacco departments, which have been having flat unit sales recently.

Last year marked the end of 12 years of steadily increasing sales for the cigarette and tobacco industry as sales fell 1.3% to $622 billion, down from more than $630 billion in 1981.

Consumer resistance to the 20% priced increase toward the end of 1982 could help turn 1983 into another soft year.

However, chain drug experts such as Walgreens' senior buyer Robert Schwab said, "We address this department from a good financial viewpoint rather than as a decreasing volume department."

Merchandisers for drug chains report margins are remaining in the 15% to 20% range.

"Sales in the cigarette and tobacco categories are declining approximately 5% per year, but we're getting a higher dollar volume because of higher prices," Schwab said.

But Schwab said Walgreens must be flexible to meet the changing market of the future. "We see a shrinking market down the road, and we have been reducing our sku's and facings. Reducing facings increases sales among other lines. An item that had seen eight turns a year now sees 10. We're willing to gamble this way to keep the departments viable," he said.

Merchandisers said eliminating items from this department has been a long-standing problem because of the constant introduction of new products designed for specific niches in the market.

The women's market will be more crowded with new brands slated for introduction. However, brand proliferation is expected to continue at its relatively slow 1982 pace until the recession eases and customer reaction to the price increase can be gauged.

Fay's Drug, for example, now carries approximately 110 brands, enough to meet the tastes of most smokers, according to buyer Joe Macro. In 1975, one study estimated that 61 brands were required to satisfy 95% of the customers.

Merchandisers usually solve the problem of brand proliferation by eliminating the slowest moving brands to make way for a potentially hot prospect

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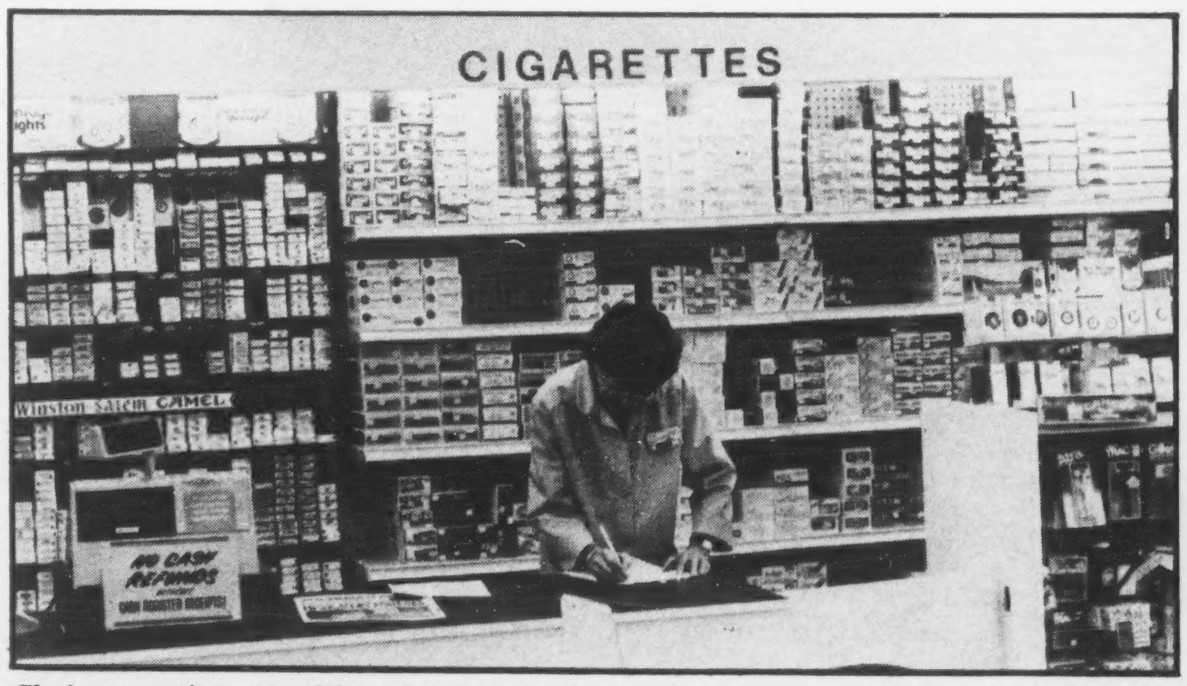

Chain executives say although tobacco sales are decreasing approximately 5% per year they expect higher dollar volumes.

DRUG STORE NEWS

1983 REFERENCE FOR PHARMACY PRACTICE

This year *Drug Store News* has updated last year's issue of the Reference For Pharmacy Practice. It has been determined through interviews with numerous pharmacists that a need exists for business-oriented information and more generic product information.

The BUSINESS SECTION is a commercial section that contains a myriad of business data useful to practicing pharmacists. Included in the section are the top 200 drugs, both by business terms and by manufacturer, profiles of leading drugs, a bulk buying guide, pricing strategies, inventory control systems, manufacturers' trade terms to retailers and wholesalers and many more features. Numerous sources have been used to compile this section, however, a sizable portion was obtained from Arlington, Tex.-based Decision Data.

The GENERIC SECTION presents information helpful to all pharmacists concerning the top generic products to stock, the brand of products pharmacists usually select in an open call situation and generic to brand name reference guides. This newest section is in response to the added demands placed on the pharmacist by drug products selection laws sweeping the country.

The CLINICAL SECTION contains background material on some OTC products, drug/drug interactions, low sodium products and sugar free products. Also in this section is information on contact lens care, home care product suppliers and a guide to leading drugs.

The CONTINUING EDUCATION SECTION contains a 100 question quiz based on the material presented in the Clinical section of the book. Following successful completion of the test, pharmacists will be better prepared to instruct their patients and advise physicians on such matters as unwanted side effects of leading prescription drugs.

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